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C O N F I D E N T I A L SECTION 01 OF 03 MADRID 000836

SIPDIS

TREASURY FOR CCLARK AND DFERNADEZ

E.O. 12958: DECL: 07/17/2018

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [KTFN](#) [PREL](#) [PARM](#) [PTER](#) [IR](#) [SP](#)
SUBJECT: IRAN FOCUS OF TREASURY UNDER SECRETARY LEVEY TRIP
TO MADRID

Classified By: Deputy Chief of Mission, Hugo Llorens, reasons: 1.5 (b) and (d)

¶11. (C) Summary: Treasury Under Secretary Stuart A. Levey, accompanied by Chief of Staff Christy Clark and Policy Advisor DeAnna Fernandez, traveled to Madrid, Spain July 15-17, 2008 to press for Spanish support for implementation of UNSCR 1803 per the EU-3 1 proposal and to provide information on the Iranian shipping line IRISL and on threats to the insurance industry. Spanish officials said they had no "substantive" objections with the EU-3 1 proposal, although they did not unequivocally commit to support implementation of the proposal prior to the August holidays. Spanish officials received the information U/S Levey provided on IRISL and insurance with great interest. The Under Secretary, together with Ambassador Aguirre, thanked a Repsol representative for the company decision not to pursue the South Pars Block 13 gas deal. U/S Levey also participated in an AmCham hosted lunch and engaged in press outreach. End Summary

UNDER SECRETARY LEVEY'S MESSAGE WITH GOS OFFICIALS

¶12. (C) The Under Secretary stressed in all of his meetings the USG's commitment to a diplomatic solution to the Iranian nuclear issue, underscored by the decision to send Under Secretary Burns to participate in the Geneva meeting with Iran as one more indication of the USG's firm commitment to reach a diplomatic solution. In order to facilitate that solution, it was necessary to present Iran with a "stark" choice, either conform to UNSCR resolutions or face isolation and stronger economic sanctions. Levey emphasized that the EU's decision in June to designate Bank Melli was a strong action that sent an important signal that the EU was prepared to be firmer with Iran. This was why it was so necessary for Spain to support implementation of UNSCR 1803 per the EU-3 1 proposal prior to the August vacation. The Under Secretary also provided information on the Iranian shipping line, IRISL. He said that in 2007, IRISL ships had been interdicted, and that in several instances, the ships had been carrying prohibited items to Iran. IRISL had also engaged in deceptive practices involving, among other things, the falsification of shipping documents and operating through a company called Seibow Limited. Additionally, Levey noted that UNSCR 1737 requires measures to prevent the provision of financial services related to the transfer of prohibited items to Iran. There had been a great deal of success in convincing the banking sector to be extremely vigilant in dealing with Iran. The U.S. now wants to expand vigilance to the insurance industry as well. The Under Secretary also raised questions regarding the possible collaboration between Iran and a Libyan-owned bank.

MINISTRY OF FOREIGN AFFAIRS MEETING

13. (C) The Under Secretary met with International Economic Relations and Energy Affairs Director General Rafael Conde de Saro and two staff members. The MFA officials said that Spain has no "substantive" problems with the EU-3 1 UNSCR 1803 implementation proposal, but it was not clear whether Spain would support implementation of the proposal prior to the August holidays. The MFA officials added that perhaps other EU members might have problems with the substance and/or timing. Levey indicated that there was a very clear reduction of Iranian activity in Spain deriving from various sanctions adopted at different levels. Spain had been scrupulous in its application of sanctions. De Saro and his staff received the Under Secretary's information on IRISL and insurance with interest. Conde indicated that he was not aware of any Spanish operations with IRISL or of Spanish insurance for IRISL, but that the appropriate Spanish authorities would be informed.

MINISTRY OF INDUSTRY, TOURISM AND
TRADE MEETING

14. (C) U/S Levey met with Ministry of Industry, Tourism and Trade Secretary General for Foreign Trade Alfredo Bonet and staff. Bonet expressed support for vigilance and caution with respect to transactions with Iran. He said that Repsol had made a "tough decision" not to pursue the South Pars

MADRID 00000836 002 OF 003

deal. With respect to export credits, a staff member said that Spain was "freezing" export credit levels to Iran. Responding to U/S Levey' questions regarding what a "freeze" means, the official said that it meant capping export credit levels to Iran. New deals can be approved, although the staff member said that export credit transactions with Iran were decreasing because it was difficult to find a bank willing to finance the deal. Bonet received the information U/S Levey provided with respect to IRISL and insurance with a great deal of interest. He said that recently, the ministry had imposed new information requirements for companies seeking to export possible dual use items. Now, the firms have to specify the means of transportation (including the identity of the shipping company) and for information on transit countries. For shipments to Iran, it was common practice to have the Centro Nacional de Inteligencia (CNI - Spain's main intelligence organization) check the end user and middlemen links for some operations, often delaying them for up to a month. If there is a potential risk or doubt about the information Iran provides, the Ministry requests further information or denies the operation. Ministry staff also noted that Spanish banks have closed representative offices in Iran.

MEETING WITH REPSOL

15. (C) Ambassador Aguirre and Under Secretary Levey thanked Repsol YPF General Counselor and Secretary to the Board Luis Suarez de Lezo for Repsol's decision not to go ahead with the South Pars Block 13 deal. Suarez said that Repsol's decision had been a "cruel" one. However, Spain was "sensitive" to the problem of terrorism. Suarez said that the company had delayed making a decision for as long as possible, and that it still has hopes for business in Iran once the nuclear issue is dealt with. Suarez said that, so far, Repsol had not been lucky in developing business in Iraq, mostly because the competition from bigger rivals was too tough. However, Repsol had been very successful in making new discoveries in Brazil and Libya.

MEETING WITH THE MINISTRY OF ECONOMY

16. (C) U/S Levey and DCM met with Economy Ministry Secretary of State David Vegara and staff. The U/S stressed the importance of Spain supporting the EU-3 1 UNSCR implementation proposal. One Vegara staff member suggested that Spain was already largely implementing the proposal through increased banking vigilance, but Levey pointed out that the EU-3 1 proposal contained other important elements as well. The staff member said that Spain was working with the U.S. within the Financial Action Task Force (FATF) to develop guidance on how to implement UNSCR 1803 (including on "counter-measures"), and U/S Levey thanked him for that support. Vegara said that Spain was on the right side of this issue, and on the matter of containing export credit operations, Spain had reduced export credits by 30 percent. The Secretary of State expressed a great deal of interest in the IRISL and insurance information provided by U/S Levey. Vegara noted, however, that while Spain has large banks, it does not have large insurance companies, so he doubted that they were involved in insuring cargo destined for Iran, but the government would look into it. Secretary of State Vegara underscored that Spain was committed to the Iran financial sanctions issue, but that Spain had to coordinate with other EU members. He expressed a great deal of interest in Under Secretary Burns' meeting with Iranian officials. DCM emphasized in this context the need for the international community to continue to make clear the "stark" choice that Iran faces precisely in order to give diplomacy a better chance to work. There was also a discussion of the risk posed by possible collusion between Libyan-owned banks and Iran. Vegara and his staff indicated that there was only one such bank in Spain and they would look into the matter.

MEETING WITH THE CENTRAL BANK

17. (C) U/S Levey and DCM met with Deputy Governor Jose Vinals and staff. He too demonstrated great interest in the material the U/S provided. Vinals agreed with Levey that Spanish banks were increasingly unwilling to take any risks with respect to Iran. He said that Banks Santander and Sabadell had ceased Iran-related operations, and that, as far as he knew, Spanish banks had closed their representation

MADRID 00000836 003 OF 003

offices in Iran. When Levey raised concerns about the risk posed by possible collusion between Libyan-owned banks and Iran, Vinals and his staff also indicated that there was only one Libyan-owned bank in Spain, Aresbank. They noted that while Aresbank was Libyan-owned, it was managed by Spanish officials. They indicated that the majority of Aresbank's business was financing equipment and transport to Libya, which was necessary since roughly 30 percent of Spain's oil imports come from Libya. Vinals, nonetheless, noted that any Libyan-owned bank merited extra scrutiny.

COMMENT

18. (C) Under Secretary Levey's trip was very timely given the upcoming EU decision on the EU-3 1 UNSCR 1803 implementation proposal. We do not know whether Spain will support implementation prior to the summer holidays. However, although the Spaniards, especially the Ministry of Foreign Affairs, played the perennial Brussels-Member State dance, i.e. suggesting that others might be to blame for an outcome not desired by the USG, we think the GOS understands that we are monitoring Spain's stance on this issue very carefully.

19. (U) Under Secretary Levey has cleared this message.

